Federal Plan for Transmission a $500 Million a Year Surtax on Michigan Consumers

Last fall, a Customer Coalition was formed to protest an action by the federal government to force Michigan consumers to bear a disproportionate share of the cost to build high voltage power lines outside of this State. The cost to Michigan is unreasonable because these proposed power lines provide little or no benefit to our homeowners and businesses. The Customer Coalition includes the Michigan Attorney General, Chrysler, Dow, Ford, GM and other large Michigan industrial customers, as well as Detroit Edison, Consumers Energy, Michigan's municipal utilities, and the Michigan Public Power Agency. The Coalition is unique because its members represent public and private utilities *and* their electric customers, from the largest industrial customers to the smallest residential households.

The Coalition efforts to stop this injustice to Michigan ratepayers has recently been joined by Governor Rick Snyder, Michigan House of Representatives, Michigan Public Service Commission, the Detroit News and Detroit Free Press, Michigan Chamber of Commerce, Michigan Manufactures Association and Michigan Environmental Council.

The protest involves a directive by the Federal Energy Regulatory Commission (FERC) that will cause Michigan's electric customers to pay for roughly 20 percent of the cost for new transmission built throughout the Midwest. Ultimately this will result in Michigan's customers sending to other states **over $500 million every year** to build transmission that provides Michigan homeowners and businesses with little or no benefit from the electricity delivered over these new power lines.

Serious efforts are well underway across the country to develop and generate more "green" energy. This effort however requires moving away from large centralized generation facilities located near population centers to smaller facilities located near the energy source. Because renewable resources, such as wind, are often quite remote from population centers and cities, the cost to transmit the power can be high and deciding how these costs are going to be paid can be challenging.

Given the complexities of this issue it is easy, at first impression, to see the appeal of the current MISO proposal to socialize the costs across the entire MISO footprint. A socialized cost allocation method that spreads the costs proportionally across all of the MISO members necessarily presumes that the benefits from the projects are similarly distributed. However, there is in fact considerable variance between the costs assessed to the members and the benefits received. The question then becomes at what point does this differential become too great that the benefits are no longer commensurate with the costs imposed?

The proponents of this method of cost allocation say it is the only way these new transmission projects will be built and that they are needed to facilitate competitive electricity markets, improve reliability, reduce congestion and get renewable energy onto the grid. The Customer Coalition supports efforts to ensure that Michigan customers will have the most reliable electric service at the lowest rates and has participated in the development of new wind generation here in Michigan. We believe we should pay our full share of the cost of new generation here in Michigan. We believe we should pay our full share of the cost of new transmission but only in proportion to the benefits that residents of Michigan actually receive. Our state renewable law was passed in 2008 and requires that we rely on renewable resources located and generated in this State. Except for making bold unsubstantiated claims, the proponents of this tariff have failed to demonstrate how Michigan customers will benefit from new transmission built in remote areas of Montana, North Dakota, South Dakota, Minnesota, or Iowa. The proposed projects for these other states will not create Michigan jobs, lower our rates, or help us meet our state renewable goals.

The protest is not about the need for new transmission or renewable energy resources as demonstrated by the efforts to build wind generation in the thumb. Nor is this about competition in electric markets which are unlikely to ever impact Michigan. Our protest is about a specific tariff involving specific projects that will result in Michigan families and businesses paying *unjust and unreasonable* rate increases to fund transmission projects that Michigan will receive little or no benefit from.

Forcing this State to pay 20% of the cost of transmission built to serve the needs of other states will have a devastating impact on Michigan's economic recovery. Michigan businesses will be hit with rate increases which will affect corporate decisions, economic growth and destroy jobs. Each of the major auto companies could pay more than $10 million in additional costs annually, our major universities will pay $1 to $2 million more and our larger municipalities such as Ann Arbor, Grand Rapids and Lansing could see over $200 thousand in increased annual costs. While our cities and towns face huge deficits forcing them to lay off police and fire fighters, they can ill afford to pay for wind development in South Dakota.

The Coalition supports the Commission's broad position of encouraging the development of wind generation, but let us not permit the ease of a simplistic answer blind us into making a bad decision for Michigan's residents and job providers. Region wide socialization across the whole of MISO including Michigan will result in this State and the State's electricity customers treated deeply unfairly.

The allocation method approved by the FERC creates an open checkbook for states in the western region of MISO who are aggressively pushing to export remotely located wind energy to other states. In essence, Michigan electric customers will end up subsidizing other states' initiatives to develop renewable energy generation. Socialization of costs only has merit when there is some relationship between the costs imposed and benefits received. Socializing transmission costs as ordered by the FERC will materially and adversely add cost to Michigan's electric utilities, which in-turn lead to increased rates for our state's citizens and job providers.

It is important that we not let the proponents of this "postage stamp" cost allocation formula distract us from the real issue involved in the building of transmission in states hundreds of miles away. From the beginning, the Customer Coalition has steadfastly argued that Michigan ratepayers should not be required to pay hundreds of millions of dollars each year for the construction of new transmission that provides little or no benefit to Michigan citizens. The sole purpose of the Customer Coalition is to ensure that Michigan ratepayers pay a *just and reasonable rate* for electric transmission.

MISO Northeast Transmission Customer Coalition:

ATTORNEY GENERAL OF MICHIGAN

ASSOCIATION of BUSINESSES ADVOCATING TARIFF EQUITY (ABATE)

Alcoa Inc., Dow Chemical Co., Enbridge Energy, Marathon Petroleum Co., Cargill Dow Corning Corp., Ford Motor Co., Martin Marietta Inc., Chrysler Group LLC, Eaton Corporation, General Motors, Praxair, Inc., Delphi Corporation, Edward C. Levy Co., Gerdau-MacSteel, U.S. Steel Corporation

CONSUMERS ENERGY

DETROIT EDISON

MICHIGAN MUNICIPAL ELECTRIC ASSOCIATION (MMEA)

Baraga, Bay City, Charlevoix, Chelsea, Clinton, Coldwater, Croswell, Crystal Falls, Daggett, Detroit, Dowagiac, Eaton Rapids, Escanaba, Gladstone, Grand Haven, Harbor Springs, Hart, Hillsdale, Holland, L'Anse, Lansing, Lowell, Marquette, Marshall, Negaunee, Newberry, Niles, Norway, Paw Paw, Petoskey, Portland, St. Louis, Sebewaing, South Haven, Stephenson, Sturgis, Traverse City, Wakefield, Wyandotte, Zeeland

MICHIGAN PUBLIC POWER AGENCY (MPPA)

Bay City, Chelsea, Eaton Rapids, Grand Haven, Harbor Springs, Hart, Holland, Lansing, Lowell, Petoskey, Portland, St. Louis, Traverse City, Wyandotte, Zeeland

THE FOLLOWING EITHER SUPPORTED THE RESOLUTION IN THE HOUSE OR HAVE ALSO REQUESTED THE FERC TO RECONSIDER THE ORDER

- **Michigan Governor Rick Snyder**
- **Michigan House of Representatives**
- **Michigan Public Service Commission**
- **Wall Street Journal**
- **Detroit News**
- **Detroit Free Press**
- **Michigan Chamber of Commerce**
- **Michigan Manufacturers Association**
- **Michigan Environmental Council**

STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

April 28, 2011

Honorable Jon Wellinghoff, Chairman
Honorable Philip D. Moeller, Commissioner
Honorable Marc Spitzer, Commissioner
Honorable John R. Norris, Commissioner
Honorable Cheryl A. LaFleur, Commissioner
Federal Energy Regulatory Commission (FERC)
888 First Street, NE
Washington, DC 20426

Dear Mr. Chairman and Commissioners:

"*If you seek a pleasant peninsula, look about you.*" The motto of this great state written in Latin across our official seal not only characterizes the geographic uniqueness of Michigan, but explains the problems we face when this uniqueness does not appear to be considered and attempts are made to apply generalized solutions to specific situations.

On December 16, 2010, the Commission issued an Order (ER10-1791) approving a tariff for the Midwest ISO (MISO), which is the regional transmission operator that covers Michigan. Michigan, along with other states in the Organization of MISO States (OMS), generally supported the concept of creating a new category of public policy projects such as Multi-Value Projects (MVP) and the establishment of a clear and concise planning process for evaluating and approving transmission projects. However, the support was conditioned on the requirement that the process have reasonable and equitable outcomes without unduly disadvantaging any discrete group of stakeholders. The Michigan Public Service Commission (MPSC) staff, as well as other entities from the state of Michigan, was active in the MISO stakeholder process that contributed to this filing. All parties recognize that equitable transmission cost allocation is a difficult subject that requires the evaluation and resolution of competing interests. We are concerned that this tariff could result in billions of dollars of future regional transmission costs being socialized through "postage stamp" rates imposed across every state in the MISO region if the tariff is not modified. This tariff, if not modified, could result in Michigan's transmission rates increasing by hundreds of millions of dollars annually, which would far exceed any nominal benefit gained by our electric customers. In essence, Michigan customers could end up subsidizing other states' initiatives to develop renewable energy projects that would otherwise be too costly to become viable. Michigan is facing one of its most challenging times economically and given our own commitment to renewable energy development, I urge the Commission to further consider the concerns of the Michigan ratepayers.

Serious efforts are well underway across the country to develop and generate more "green" energy. This effort, however, requires moving away from large centralized generation facilities located near population centers to smaller facilities located near the energy source. Because renewable resources, such as wind, are often quite remote from population centers and cities, the cost to transmit the power can be high and deciding how these costs are going to be paid can be challenging. Market signals need to be clear to avoid overbuilding and to ensure that the appropriate customers pay.

Given the complexities of this issue, it is easy, at first impression, to see the appeal of the current MISO proposal to socialize the costs across the entire MISO footprint. However, a socialized cost allocation method that spreads costs proportionally across all of the MISO members based solely on load, necessarily accepts a false premise that the benefits from the projects are similarly distributed. However, there is in fact considerable variance between the costs assessed to the members and the benefits received. The question then becomes at what point does this differential become too great that the benefits are no longer roughly commensurate with the costs imposed?

A socialized cost allocation based on load means that Michigan's residents and businesses will pay a disproportionate share of the costs for transmission built elsewhere in the region without realizing a generally commensurate benefit. The reasons are threefold:

- Even though MISO is comprised of 12 other states and the Canadian Province of Manitoba, Michigan represents nearly 20 percent of the MISO market and accordingly, under the proposed formula, this state would be responsible for approximately 20 percent of the costs associated with specific new transmission projects developed throughout the Midwest ISO. Except for some generalized benefits that come from any upgrades to the grid, there is little nexus between the size of load and the benefits received from these proposed new transmission projects. To subject Michigan to 20 percent of the costs means the ratio of costs to benefits under the MISO scenario is so great that it will result in this state being subjected to rate increases that do not meet the standard of being "just and reasonable."

- Michigan already has a Renewable Portfolio Standard (RPS) of 10 percent by the year 2015 and the renewable energy to meet the RPS must be generated within the state. This means that Michigan will receive little or no benefit from renewable energy generated from outside the state as it will not count toward meeting the state RPS. Michigan is already aggressively developing its own renewable energy market including the development of additional in-state transmission capacity to accomplish this goal.

- Michigan is experiencing one of the worst economic times in its history and arguably the worst currently in the nation. The RPS goal, coupled with the in-state generation requirement, was part of the approach for addressing the economic challenges confronting this state. One of the cornerstones of my plan to reinvent Michigan will require attracting new jobs to this state and providing an environment that will allow businesses to grow and prosper. Although I support regional planning, the cost allocation needs to be just and reasonable. The current tariff would require modifications to be consistent with prior Commission regulations and applicable case law.

A broad coalition of interests that includes Michigan Attorney General Bill Schuette, the Association of Businesses Advocating Tariff Equity (which represents the largest industrial customers in the state), and the state's major utilities (Consumers Energy, DTE Energy, Michigan Public Power Agency, and Michigan Municipal Electric Association) formed to address the MISO proposal. The coalition entered a formal protest with FERC on September 10, 2010. The coalition is advocating that the Commission designate that portion of the Lower Peninsula of Michigan currently within MISO as a separate and unique planning and cost subregion of MISO. As such, the coalition appears to make persuasive arguments as to why Michigan's energy users located within this region should only pay for the transmission system developed within Michigan to support in-state renewable energy development. They should not be required to pay for the development of electric transmission outside the region to allow other states to build wind generation in excess of their needs in order to "competitively" sell that excess capacity in the MISO market. Should this socialization approach be adopted by the Commission, Michigan ratepayers would be exporting dollars to subsidize the creation of wind capacity, jobs, and taxes in states like Iowa, North and South Dakota, and Minnesota. The Commission should not ignore this request for a separate designation given that Michigan represents approximately 20 percent of the MISO footprint. Our customers deserve to have this request analyzed for its fundamental fairness. If this request is denied, a reasoned explanation should be provided.

While I understand the Commission's broad position of supporting and encouraging the development of wind generation, we should not allow the ease of a simplistic answer to blind us into making a bad decision for Michigan's residents and businesses. The current tariff provisions for qualifying a transmission project as MVP are too broad, which could lead to disproportionate region-wide socialization across the whole of MISO, including Michigan, resulting in this state and the state's electricity customers being treated unjustly. In addition, this approach ignores the recent Seventh Circuit Court of Appeals decision in *Illinois Commerce Commission v FERC*, as well as the long-held principles that rates should be just and reasonable and, to the degree possible, based on the costs to serve the customer. Under the Federal Power Act, the Commission, not the MISO board, is charged with the responsibility to ensure "just and reasonable rates." The MPSC argued that as a threshold matter, the Commission must require a demonstration that the cost causation principles identified by the Seventh Circuit decision noted above are satisfied.

The Commission should approve the requests for rehearing. I support the concerns of the MPSC and the MISO Northeast Transmission Customers and I request that the Commission consider the creation of a separate planning and cost transmission region within MISO for the Lower Peninsula of Michigan.

Sincerely,

Rick Snyder
Governor

The Detroit News
March 28, 2011

Editorial: Pull the plug on power plan

Michigan consumers shouldn't have to pay for expensive alternative energy transmission projects in the Plains states

How much sense does it make for hard-pressed Michigan residents and businesses to pay hundreds of millions of dollars to subsidize transmission lines for wind-generated electricity projects in Iowa or the Dakotas? The question answers itself. Yet that will be the result of plan tentatively approved by a federal energy agency — if it is not reversed.

The Federal Energy Regulatory Agency has delegated some of its authority to public-private hybrid regional electricity transmission organizations. We've questioned the wisdom of this arrangement on the ground that the lines of accountability in such operations is obscure.

Nevertheless, Michigan is included in an outfit called the Midwest Independent Transmission Operator Inc. It is in charge of the electric energy transmission grid in 13 states and the Canadian province of Manitoba.

MISO has put forward a plan for covering the costs of building new transmission lines for projects that would generate power using alternative energy sources such as wind or solar.

Since Michigan makes up about 20 percent of the electricity market in the MISO area, it would be responsible for 20 percent of the costs of the transmission lines.

That means that additional burdens will be placed on the electricity bills of Michigan's industrial, commercial and residential electricity users — making power in this state even more expensive.

This would happen even though Michigan already has its own state law requiring that 10 percent of its power must be generated using alternative sources by 2015. And all of that renewable-source energy must be generated within Michigan — which means electricity consumers likely won't be buying or using power generated in other states.

There will be very little benefit for Michigan residents for the additional cost. The state's major public and private utilities, state Attorney General Bill Schuette, the auto industry and other business users of electricity, have formed a coalition to protest this arrangement.

The initial list of projects in the MISO region has an estimated cost of $4.8 billion. But MISO has pointed to additional projects over the next several years that could total between $16 billion and $20 billion. Michigan's share of $16 billion worth of projects would be about $640 million annually. And most of these funds would be sent out of the state.

It is unreasonable — given the still perilous condition of this state's economy — to impose these costs. To her credit, Michigan U.S. Sen. Debbie Stabenow has asked for Senate hearings on this topic.

The coalition is seeking from the Federal Energy Regulation Commission a designation for the Lower Peninsula of Michigan as a separate subregion of MISO so it can keep its power transmission money within the state.

Beyond seeking changes for Michigan, U.S. Sen. Bob Corker of Tennessee has introduced legislation that would require FERC to make sure the cost of regulations it approves are related to the benefits that would accrue to the states or regions on which they are imposed. That doesn't seem like too much to ask.

From The Detroit News:
http://detnews.com/article/20110328/OPINION01/103280317/Editorial--Pull-the-plug-on-power-plan#ixzz1HuFkS7RJ

The Detroit Free Press

April 29, 2011

Editorial: Power line upgrade costs would hit Michigan unfairly

Michigan's elected representatives in Washington should press the Federal Energy Regulatory Commission to take a hard look at a plan to beef up electric power lines throughout the Midwest. Without some timely federal intervention, Michigan power customers could end up paying an unfair share of the bill.

At issue is a plan to beef up transmission lines to accommodate and encourage new wind farms. Michigan benefits from this trend, of course -- but the benefits here seem far less than what Michiganders will be charged.

The group setting the rates for the enhancement of the transmission lines proposes to charge Michigan 20% of the costs associated with the upgrade because Michigan now uses 20% of the energy in the states the group represents. The group, the Midwest Independent System Operator, or MISO, covers Michigan, a part of Illinois excluding the Chicago area, and a group of largely agricultural states, including the Dakotas, Nebraska and Iowa. Among this group, Michigan's population size and manufacturing base make it an outsized consumer of electricity.

If Michigan would benefit from 20% of the new transmission, then electric customers here should foot a proportionate share of the bill. And, in fact, Michigan will be an early beneficiary, because MISO plans to take over transmission upgrades in the Thumb -- a project the state had initially intended to finance internally, since the new power is designed to stay here.

But the wind power dreams of the central states represent far bigger projects and involve sending electricity all over, including to Eastern and Southern states that belong to different transmission groups. At the least, those end customers should eventually be charged for some or all of the transmission line costs with rebates back to the people who built them.

The stakes for Michigan could hardly be higher, given the decimation of household income in the past few years. Disproportionately higher electric rates could also make Michigan uncompetitive in the hunt for new jobs, because utility costs often are a major factor for businesses seeking to locate or expand in any given state.

The Federal Energy Regulatory Commission has so far turned a deaf ear to requests that it re-examine the cost allocation from the viewpoint of electric customers, be they in Michigan or elsewhere. That is inappropriate behavior for a federal agency that should be weighing the impact on everyone who's affected.

Utility rates generally involve a complex formula with multiple factors to ensure fairness. By opting for simplicity, MISO appears simply to be sticking it to Michigan.

Wall Street Journal

December 30, 2010

The Midwest Wind Surtax

The latest scheme to socialize the costs of renewable

You'd think poor Michigan has enough economic troubles without the Federal Energy Regulatory Commission placing a $300 million to $500 million annual surtax on the state's electric utility bills. But on December 16 FERC Chairman Jon Wellinghoff announced new rules that would essentially socialize the cost of transmission lines across 13 states in the Midwest.

That region-wide pricing scheme, according to a study commissioned by utility companies, will force Michigan to pay about 20% of as much as $20 billion in new high-voltage transmission lines—though Michigan businesses and homeowners will get little benefit. Thanks to FERC's new tariff, nearly everything in Michigan—from cars and trucks to Frosted Flakes—will be more expensive to make. Indiana will also absorb new costs, as will industrial users and utility rate payers in Illinois, Minnesota and Wisconsin.

This is another discriminatory subsidy for wind energy that will raise electricity prices on everyone, notably on those who don't rely on wind for electric power. FERC's grand vision is to build hundreds of miles of transmission lines across the Midwest, linked to windmills in Iowa and the Dakotas. Mr. Wellinghoff says this new ruling "is the next step in the evolution of its transmission and cost allocation process."

In fact, this is the first step in a FERC scheme to socialize transmission costs nationwide. In June FERC drafted a rule to create a new national transmission pricing policy that would link wind and solar energy projects to the national electricity grid. (See our November 7 editorial, "The Great Transmission Heist.") Those rules are expected to be finalized in mid-2012.

Traditionally and by law, FERC has set prices on the economically efficient and environmentally sound standard that users pay for the cost of the electricity they consume. For at least 65 years, the courts have ruled that payment by the beneficiaries is the "touchstone in any legal analysis of FERC-approved rate schemes" (as the D.C. Circuit Court of Appeals has put it). The new pricing rule departs from that principle, because FERC would establish a new category of transmission lines called "Multi-Value-Projects." This would take into account broad "public policy goals," most notably increased use of so-called clean energy to comply with renewable energy standards.

Let's be very clear on what's happening here: Mr. Wellinghoff and FERC are trying to establish by regulatory fiat a national energy policy that Congress has refused to endorse. Last summer Congress rejected the Obama Administration's renewable energy standard law because it would have inflated power costs. So the fiefdom at FERC is unilaterally moving ahead to require that industries and homeowners pay a surtax on their utility bills for a nonexistent renewable energy policy. This is similar to the EPA's initiatives to regulate carbon even after Congress rejected cap and trade.

It is true that about half the states have passed renewable portfolio standards, which require from 10% to one-third of electricity to come from wind, solar and other renewable sources. But these states have discovered that green energy is expensive and that ratepayers aren't thrilled about paying these higher costs.

For example, a 2009 study by the California Public Utilities Commission finds that to meet the state's "33% RPS by 2020 target, seven additional [transmission] lines at a cost of $12 billion would be required." By some estimates, electricity from the Cape Wind project off Massachusetts will cost about two to three times more per kilowatt hour than electricity from coal or natural gas. The wind industry has essentially conceded that without the ability to socialize the cost of multibillion dollar transmission lines, its projects can't compete with coal, natural gas and nuclear power.

The FERC pricing scheme is politically insidious, and arguably unconstitutional, because it enables states with renewable standards to export the costs of those policies to other states without these laws. Why should a factory in Pontiac, Michigan subsidize the wind energy costs of a plant in Elgin, Illinois? Michigan has a renewable energy standard, but it is already complying through instate renewables.

The governors of at least 15 Western and Northeastern states have sent a letter to Congress objecting to the socializing of costs, complaining that the pricing plans would make electricity more expensive. But Mr. Wellinghoff rebuffed Michigan's plea to exclude the state from the cost-sharing plan.

We hope that Fred Upton of Michigan, who will soon chair the House Energy and Commerce Committee, is paying attention. FERC is required under the Federal Power Act to set prices that are "just and reasonable." If Mr. Wellinghoff has his way, the people of Michigan and potentially residents and businesses in at least half of all other states are going to receive electric bills that are unjust, unreasonable and a lot more expensive.